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SUBJECT: IMF STAFF MISSION PRESENTS MIXED PICTURE TO DONORS

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¶1. (SBU) Summary: The IMF Staff Mission presented donors on March 31 with a mixed picture of their two-week visit (Reftel) to the DRC to conduct Article IV consultations and engage in technical discussions on a formal IMF program (Poverty Reduction and Growth Facility, PRGF). Positive developments included the quick mobilization of emergency resources to help cover the DRC's fiscal and balance of payments gaps, open discussions with Parliamentarians and civil society on the DRC's economic challenges, improved public financial management, and progress on technical discussions on the PRGF. At the same time, the IMF noted a residual budget gap of approximately $100 million that will need to be closed before the PRGF can be approved, and continuing macroeconomic and fiscal pressures. In a clear indication that the economic downturn continues to be the central challenge for the GDRC in the near-term, the IMF team announced a revised GDP growth rate for 2009 of 2.7 percent, down from a December projection of 4.4 percent. End Summary.

DONORS PROVIDE KEY SUPPORT, BUT GAPS REMAIN

¶3. (SBU) IMF Staff Mission leader Brian Ames told donors on March 31 that recently approved emergency assistance would cover approximately 60 percent of the DRC's budget gap. Approved assistance includes $100 million from the World Bank and $200 from the IMF (Note: IMF emergency assistance under the Exogenous Shock Facility, ESF, will be provided to the Central Bank to augment international reserves. It will not be used as budget support. End Note) An additional $150 to $200 million in emergency assistance is anticipated from the EU and African Development Bank (AfDB). An EU representative described planned emergency assistance as totaling around EUR 50 million. The assistance will be provided as line-item budget support and disbursed in two tranches, planned for mid-July and September. EU assistance will be targeted towards food security and related activities; the EU is still working to identify specific line-items in the budget to be supported. AfDB plans to provide $100 million in emergency assistance, with the first $50 million tranche anticipated before June.

¶4. (SBU) During the December 2008 Staff Mission visit, the IMF had identified a budget gap of approximately 220 billion FC (approximately $275 million at the current exchange rate). However, additional expenses, lower GDP growth and a significantly depreciated exchange rate have led to an increase in the previously projected gap. Ames estimated the residual gap at 80 billion FC or approximately $100 million at the current exchange rate. Ames noteQ two options for the GDRC to close the budget gap: a) increase revenues and/or obtain additional external financing or b) reduce spending. The GDRC's position, according to Ames, is to ensure macroeconomic stability and contain expenditures. The IMF plans to use the April 25/26 Spring IMF/World Bank meetings to discuss

measures to close the remaining budget gap.

PRGF TECHNICAL DISCUSSIONS MOVE FORWARD

¶5. (SBU) Ames stated he was generally pleased with the results of the technical discussions with the GDRC on the PRGF. The IMF team devoted considerable time to these discussions and was pleased by the GDRC's willingness to put "all issues on the table." This was a break from the past. While Ames acknowledged that the team did not finalize all technical aspects of the agreement, and expressed disappointment that the GDRC was not better prepared to take concrete steps on specific measures during the visit, the work ahead for the GDRC is now clear. The remaining, critical step is for the authorities to take necessary political decisions on specific measures. Ames promised to share with donors the draft matrix on structural reform measures that would be included in a new PRGF. He was open to donor input on specific reforms to be included.

CHALLENGES AHEAD

¶6. (SBU) Ames outlined several specific challenges facing the GDRC in the areas of the budget, public financial management and emergency spending. An immediate problem facing the government is the lack of a system of arbitrage in the budget and expenditure process. For example, the "Plan de Tresorerie" or Treasury cash-flow plan, includes expenditures in both Congolese Francs and US dollars. The recent depreciation of the CF against the dollar

has exacerbated this problem, despite what Ames described as significant progress by the Ministry of Finance in public financial management, including improved adherence to mandated procedures governing emergency spending. Ames therefore called on the GDRC to immediately put in place a system of arbitrage to be overseen by the Prime Minister's Office (noting that many line ministries would not necessarily be responsive to a decree issued by the Minister of Finance). Another problem related to the monthly Plan de Tresoreie is that recurring, administrative costs (such as salaries) are usually paid at the end of the month, when credit may not longer exist. As a result, the government has frequently postponed the payment of salaries.

¶7. (SBU) Another challenge continuing to face the GDRC is the lack of coordination among key ministries on the government's economic program. Improved coordination among and increased participation by line ministries such as the Ministries of Agriculture, Education and Health will be critical as the DRC moves towards HIPC completion point.

¶8. (SBU) Finally, implementation of the 2009 budget's wage bill (masse salaire in French) was noted as another area of increased fiscal pressure on the budget. The GDRC's 2009 budget calls for a harmonization of Kinshasa and provincial salary levels. The IMF has discussed the possible delayed or phased-in implementation of what amounts to a salary increase for many civil servants. The issue is politically sensitive for the GDRC, but they may be forced to delay full implementation of the provisions by a month or two given the lack of available current resources.

CHINA AGREEMENT-NO COMMENT

¶9. (SBU) Despite donor inquiries, the IMF team kept to its now standard practice of limiting its discussion on the China agreement to the broad linkages with HIPC and debt sustainability. Ames did note, however, that the completion of the planned feasibility study on the agreement had been slightly delayed, from the end of March to early April. He also stated that while he did not have any information on the status of the $250 million signing fee ("pas de porte") included in the agreement, the IMF had urged the GDRC not to use these funds until after the conclusion of the feasibility study. The economic and fiscal crisis would likely continue through 2010

and 2011; resources needed to be conserved.

¶10. (SBU) Comment: Unlike past IMF Staff Mission briefings which have included a greater focus on recent macroeconomic developments, the March 31 briefing to donors was more forward looking, including measures to address the DRC's significant economic challenges. Key macroeconomic data will be available as part of the IMF's Staff Report on the Article IV consultations and donors are already keenly aware of worrisome state of the economy. The focus now is on ensuring continued macroeconomic stability, the adoption of key measures and reforms as discussed with the IMF, and continued positive movement toward a PRGF. The Spring IMF/World Bank meetings will be critical to resolve several key issues for PRGF approval, foremost among them measures to close the budget gap.

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